**REACT Ex. 1.0**

**STATE OF ILLINOIS**
**ILLINOIS COMMERCE COMMISSION**

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|---|---|---|
| **Commonwealth Edison Company** | ) | |
| | ) | **ICC Docket No. 16-0420** |
| **Approval of the Energy Efficiency and Demand** | ) | |
| **Response Plan Pursuant to Section 8-103(f)** | ) | |
| **of the Public Utilities Act** | ) | |

**DIRECT TESTIMONY**

**OF**

# BRADLEY O. FULTS

**ON BEHALF OF THE COALITION TO**

**REQUEST EQUITABLE ALLOCATION OF COSTS TOGETHER**

# REACT

**COMPRISED OF:**
**A. FINKL & SONS, CO.**
**AUX SABLE LIQUID PRODUCTS, LP**
**CHARTER DURA-BAR (F/K/A WELLS MANUFACTURING, INC.)**
**CITGO PETROLEUM (F/K/A PDV MIDWEST REFINING, LLC)**
**FLINT HILLS RESOURCES, LP**
**THE METROPOLITAN WATER RECLAMATION DISTRICT**
**OF GREATER CHICAGO**

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**I.**

## INTRODUCTION AND QUALIFICATIONS

**Q. Please state your name and business address.**

A. My name is Bradley O. Fults. My business address is 8908 Prestwick Circle North, Minneapolis, MN 55443.

**Q. On whose behalf are you testifying?**

A. I am testifying on behalf of the coalition to **R**equest **E**quitable **A**llocation of **C**osts **T**ogether (collectively, "REACT").[1] Since 2007, REACT has brought together some of the largest and most well-known industrial, commercial, and governmental energy users in the Commonwealth Edison Company ("ComEd") service territory. In this proceeding, REACT seeks an order from the Illinois Commerce Commission (the “Commission” or the “ICC”) directing ComEd to implement an Electric Self-Direct Program for its largest customers -- those customers in the Extra Large Load class and the High Voltage Over 10 MW class.

**Q. What is your occupation?**

A. I am the Managing Principal at Progressive Energy Solutions, LLC, an energy consulting firm that specializes in energy planning, energy pricing, contract negotiations, strategic planning, and other energy matters. Progressive Energy Solutions works with large commercial, institutional, and industrial companies, as well as municipal entities,

[1] The REACT members for purposes of this testimony include: A. Finkl & Sons, Co.; Aux Sable Liquid Products, LP; Charter Dura-Bar (f/k/a Wells Manufacturing, Inc.); CITGO Petroleum (f/k/a PDV Midwest Refining, LLC); Flint Hills Resources, LP; and The Metropolitan Water Reclamation District of Greater Chicago.

including many customers with facilities served by ComEd. I have worked with REACT since its inception when REACT was formed to challenge significant rate increases being proposed by ComEd in ICC Docket No. 07-0566 (the "2007 ComEd Rate Case").

**Q. What are your responsibilities in your present position?**

A. I assist large energy users with analysis of energy efficiency issues, energy supply procurement and management, utility rate evaluation, energy cost analysis, and education. I regularly assist large commercial, institutional, governmental, and industrial customers by evaluating the energy procurement process, commodity pricing options, utility rate structures and costs, rules of service, and on-site generation feasibility for such customers.

**Q. Please state your educational qualifications and professional experience.**

A. I received a Bachelor of Science Degree in Business Administration with a major in Management Information Systems from the University of Wisconsin-Eau Claire (1982). Since 1987, I have supported several energy users groups, including most recently the Northern Illinois Energy Users -- a group of very large industrial, governmental, and institutional energy users. That work involves providing energy market, legislative, and regulatory information allowing the members to better understand and manage their energy costs. This work includes preparing assessments of the cost impact of regulatory changes.

**Q. Please discuss your experience in the Illinois retail electric market.**

A. Since the late 1980s, I regularly have advised customers in the ComEd service territory regarding the procurement of energy supply for electricity and natural gas, as well as related issues such as cost analysis of energy efficiency charges. For almost 30 years, I have provided technical support and utility industry analysis to some of the largest commercial, institutional, and industrial energy customers in the northern Illinois area. This work includes analyzing changes to tariffs and cost impacts, such as those that have been proposed in past ComEd rate cases and those being proposed by ComEd in its 2017 to 2019 energy efficiency plan.

Over the past decade, I have assisted a wide array of commercial and industrial customers in reviewing and analyzing their competitive supply and energy usage options. This work includes assisting large energy users in evaluating ComEd's energy efficiency charges (through ComEd's Rider EDA) and related energy efficiency planning and evaluation issues.

**Q. Do you have national experience regarding energy issues?**

A. Yes. I have worked throughout the United States evaluating energy procurement options, rate design issues, and alternative supply opportunities such as customer-owned electric generation. Many of my clients own and operate multiple facilities, and I am often retained to evaluate supply options across more than one jurisdiction, and in addition to my work in Illinois, I have evaluated supply procurement options for electricity and natural gas in states such as New Jersey, California, Minnesota, New York, Pennsylvania, Texas, and Washington, as well as Canada.

**Q. Have you previously testified before the Commission?**

A. Yes. Most recently I presented testimony to the Commission in ICC Docket Nos. 13-0495 and 13-0499, the ComEd and Department of Commerce and Economic ("DCEO") Energy Efficiency Plan proceedings, respectively. I also presented testimony in the 2007 ComEd Rate Case (ICC Docket No. 07-0566); the 2008 ComEd Special Investigation Proceeding regarding ComEd's rate design (ICC Docket No. 08-0532); the 2010 ComEd Rate Case (ICC Docket No. 10-0467), and in ComEd's 2013 Rate Design proceeding (ICC Docket No. 13-0387).

My resume is attached hereto as REACT Ex. 1.01, and includes a list of proceedings in which I have provided expert testimony.

## II.

## PURPOSE AND RECOMMENDATIONS

**Q. What is the purpose of your testimony in this proceeding?**

A. My testimony:

- Introduces REACT and its guiding principles;
- Provides historical context regarding large energy users' frustration with ComEd's Energy Efficiency Programs;

- Addresses the failure of ComEd's Energy Efficiency Programs to seriously involve and address the concerns of very large energy users, such as REACT members; and
- Recommends that the Commission direct ComEd to adopt an Electric Self-Direct Program for over-10 MW customers containing the program elements outlined in the Framework document attached to this testimony as REACT Ex. 1.02.

**Q. Please summarize your testimony.**

A. My testimony makes several straightforward points:

- ComEd's Energy Efficiency Programs are falling well short of the energy savings levels set forth in the Public Utilities Act, yet ComEd has failed to tap into a significant potential resource to increase energy efficiency: its largest energy users.
- ComEd's largest customers have paid over **$61,000,000** into the ComEd Energy Efficiency Programs, with most receiving little or no direct benefits. As a group, these customers have received ***less than 15¢ in incentives for each dollar paid to support ComEd's programs***, with many customers receiving zero or virtually no benefits at all.
- ComEd has created a set of complex, impractical, bureaucratic programs that are neither user-friendly nor effective in incentivizing energy efficiency projects by very large customers. As a result, for more than 80% of the programs that ComEd created for its largest customers, only five or fewer of those customers actually participated; and for those customers who were able to slog through and get some

amount of incentive, the funds they received usually were merely a fraction of the amount they paid to ComEd.

- ComEd should be directed to do something different. A much better option -- as demonstrated by its success for very large Illinois natural gas customers -- would be a practical, easy-to-understand Electric Self-Direct Program for over-10 MW electricity customers.

The stark reality at this point -- nine years into ComEd's Energy Efficiency Programs -- is that ComEd's programs have failed miserably for the vast majority of its largest customers. A return of less than a couple of dimes for each dollar paid in demonstrates that the ComEd programs simply are not working.

**Q. What is your recommendation?**

A. The Commission should empower the entities that have the know-how, experience, and incentive to implement energy efficiency projects at the facilities of ComEd's largest customers: the customers themselves. After a decade of failed programs designed and administered by ComEd, it is time for an Electric Self-Direct Program. The development and execution of energy efficiency projects by the largest users, under terms that are designed to facilitate participation, would have a substantial impact toward enabling ComEd to meet the energy savings levels established by the General Assembly.

**Q. Does REACT have any other witnesses?**

A. Yes. In addition to me, R. Neal Elliott, Ph.D, P.E., of the American Council for an Energy-Efficient Economy is providing testimony on REACT's behalf. (*See* REACT Ex. 2.0.)

## III.

## <u>THE REACT COALITION</u>

**Q. What is the unifying philosophy of REACT?**

A. REACT is committed to ensuring that ComEd's rates and charges are designed in a manner that equitably allocates ComEd's costs amongst its various customer classes. Unfortunately, the largest customers have not been treated fairly by ComEd. Since 2007, costs have increased significantly for REACT customer members, due to changes in ComEd's distribution rates; and since the start of ComEd's Energy Efficiency Program in 2008, REACT members have been assessed millions of dollars in Rider EDA - Energy Efficiency and Demand Response Adjustment ("Rider EDA") charges. These cost increases *are **<u>not</u>** the result of an increase in the level of service* provided by ComEd to these customers. ComEd's largest customers should not have to face barriers to access the energy efficiency funds that they themselves have paid to ComEd.

**Q. Please explain the history of REACT's involvement in Commission proceedings.**

A. REACT was formed in direct response to ComEd's proposed rate increase in 2007. In the 2007 ComEd Rate Case (ICC Docket No. 07-0566), ComEd proposed massive rate increases to the over 10 MW size customers that would have dramatically increased delivery services costs for those customers. ComEd's proposal would have more than doubled the rates to its largest customers who are now in the Extra Large Load Class (referred to herein as the "ELLC class") and High Voltage over 10 MW subclass (referred to herein as the "HV Over 10 MW class"). (*See* ICC Docket No. 07-0566, REACT Ex. 1.0, Direct Testimony of Bradley O. Fults at 10.) The diverse members of REACT recognized that their interests aligned in addressing ComEd's proposed inequitable and unjustified cost allocations and joined together to **R**equest **E**quitable **A**llocation of **C**osts **T**ogether, or "REACT."

**Q. Can you provide any additional detail about the members of REACT?**

A. Yes. REACT's customer members are all considered ELLC class or HV Over 10 MW class customers. As discussed in detail below, the impact of ComEd's Rider EDA charges assessed to the members of these customer classes has been significant, but ComEd's energy efficiency programs have been largely useless for these customers.

**Q. You provided testimony in ComEd's last Energy Efficiency Plan proceeding, ICC Docket No. 13-0495. What was the purpose of your testimony in that proceeding?**

A. I provided testimony on behalf of REACT. Then, as now, REACT advocated for implementation of an Electric Self-Direct Program for the largest customers in ComEd's service territory. My testimony explained the high level of frustration with ComEd's programs experienced by the largest energy users, as well as the low level of meaningful participation in those programs. Unfortunately, the high level of frustration is worse now than it was three years ago, and, as discussed below, the per customer payout for these customers has decreased significantly. Ultimately, the 2013 case resulted in the

Commission's approval of the ComEd Large C&I Pilot Program. REACT clearly favored a true Electric Self-Direct Program, but was ultimately willing not to oppose the Large C&I Pilot Program. As discussed further in my testimony, the Large C&I Pilot Program turned out to be a failure, resulting in zero implemented energy efficiency projects.

**Q. What message would REACT like to convey to the Commission?**

A. REACT's basic message is: (1) ComEd's Energy Efficiency Programs simply are not working for the largest energy users; and (2) the programs can be greatly improved by providing additional flexibility to the largest energy users through a straightforward Electric Self-Direct Program, based on the Framework document attached to this testimony as REACT Ex. 1.02.

To be clear, the members of REACT are committed to energy efficiency, and are not looking to avoid participation in the ComEd Energy Efficiency Programs. To the contrary, REACT's members have paid millions of dollars to ComEd for energy efficiency, but in large part have not been able to access those funds, including through the ComEd Large C&I Pilot Program. At the same time, the DCEO-administered Self-Direct Program for natural gas energy efficiency has been very successful for large energy users, with high levels of participation, significant investment in energy efficiency projects, and substantial energy savings. Thus, it seems obvious, frankly, that an Electric Self-Direct Program should be offered to ComEd's largest customers.

**Q. How do you know that the natural gas self-direct program in Illinois is effective?**

A. DCEO has studied the natural gas self-direct program and reported very impressive results. Information regarding the success of that program is summarized in the Direct Testimony of Marion Lunn, the Deputy Director for Energy & Recycling at DCEO, in the parallel DCEO Energy Efficiency Plan proceeding (ICC Docket No. 16-0422). Ms. Lunn's testimony reports on studies showing a high level of customer participation, customer financial investment, and energy savings realized through that self-direct program. (*See* ICC Docket No. 16-0422, DCEO Ex. 1.0 at 48-54, including reference to the following study: http://ilsagfiles.org/SAG_files/Meeting_Materials/2015/5-11-15_Meeting/DCEO_Self_Direct_Report_Final_6-23-2015.pdf.) Details include:

- 35 large gas users have been active self-directing customers, and one new customer is joining the program in 2017.
- Site verifications showed that 100% of the projects selected via a random sampling were actually implemented.
- Estimated savings was 24 million therms over just the first two years, with expenditures of $19 million by the participating self-directing customers.
- For program year 4, 20 out of 22 participating customers that claimed energy efficiency savings were confirmed; and 95% (or 5,009,043 therms) of claimed savings was confirmed.
- Standardized reporting documents have now been issued by DCEO (DCEO has repeatedly acknowledged that part of the reason for inconsistent "compliance" during early years of the program was the lack of clear program guidelines and standardized reporting documents).

In short, it appears that the natural gas self-direct program is working very well, standing in stark contrast to the ineffective ComEd Energy Efficiency Programs aimed at the largest customers.

**Q. Has Illinois Governor Bruce Rauner taken any actions recently that are relevant for the Commission to consider as a backdrop to this proceeding?**

A. Yes. Governor Rauner recently issued an Executive Order establishing the Illinois Competitiveness Council, in which he highlighted the importance of eliminating red tape and unproductive bureaucratic policies. (*See* REACT Ex. 1.03, attached to this testimony.)

The Executive Order notes that "government regulations should promote economic development, increase government effectiveness, and help our most vulnerable citizens obtain services in an efficient and expeditious manner . . . Illinois' government should strive for the most legally-grounded, least onerous, least costly and most efficient and effective body of administrative law possible."

**Q. How does this connect with REACT's position in this case?**

A. REACT is advocating a practical approach to empower large electricity users to implement their own electric energy efficiency projects, through a model that is working well in Illinois for large natural gas customers. The same policies that are the basis for the Governor's Executive Order form the need for a self-direct program for the largest energy users: eliminating unnecessary red tape and needless bureaucracy in order to promote economic development and growth. Expanding large scale energy efficiency projects by eliminating red tape will be good for the economy, good for the environment, and good for helping to meet the statutory energy savings levels. This would seem to be the type of win-win-win scenario that state energy and economic policy seeks to encourage.

## IV.

## COMED IS NOT MEETING ITS STATUTORY ENERGY EFFICIENCY REQUIREMENTS

**Q. Is ComEd required by law to implement the Energy Efficiency Program that it proposes in this docket?**

A. Yes. In 2007, the Illinois General Assembly passed a law requiring ComEd to implement cost-effective energy efficiency programs with clear incremental annual energy savings standards. (*See* Illinois Public Act 95-481, codified at 220 ILCS 5/8-103.) The law provides that ComEd shall be responsible for overseeing the design, development, and filing of its Energy Efficiency Plan with the Commission. (*See* 220 ILCS 5/8-103(e).) The law specifically requires that the ComEd program present "a diverse cross-section of opportunities for customers of **all rate classes** to participate in the programs." (220 ILCS 5/8-103(f)(5) (emphasis added).)

**Q. Has ComEd achieved the energy efficiency levels set forth in the statute?**

A. No. ComEd's Energy Efficiency Plan for Plan Years 5 through 9 did not meet the statutory energy efficiency requirements; instead, ComEd sought permission from the Commission to deviate from the statutory requirements. (*See* ICC Docket No. 10-0570, ComEd Ex. 1.0, ComEd 2011-2013 Energy Efficiency and Demand Response Plan at 6.; ICC Docket No. 13-0495, ComEd Ex. 1.0, ComEd 2013-2016 Energy Efficiency and Demand Response Plan at 5-6.) Similarly, ComEd's current proposed Plan for Plan Years 10 through 12 would not meet the statutory energy efficiency requirements, and ComEd again has sought permission to deviate from those requirements. (*See* ComEd Ex. 1.0 at 4 ("ComEd is again proposing modified energy savings goals.").)

The discrepancy between the savings levels recited in the statute and ComEd’s level of achievement is significant. The chart below illustrates the magnitude of ComEd’s projected savings compared to statutory levels of energy efficiency for Plans since 2014.

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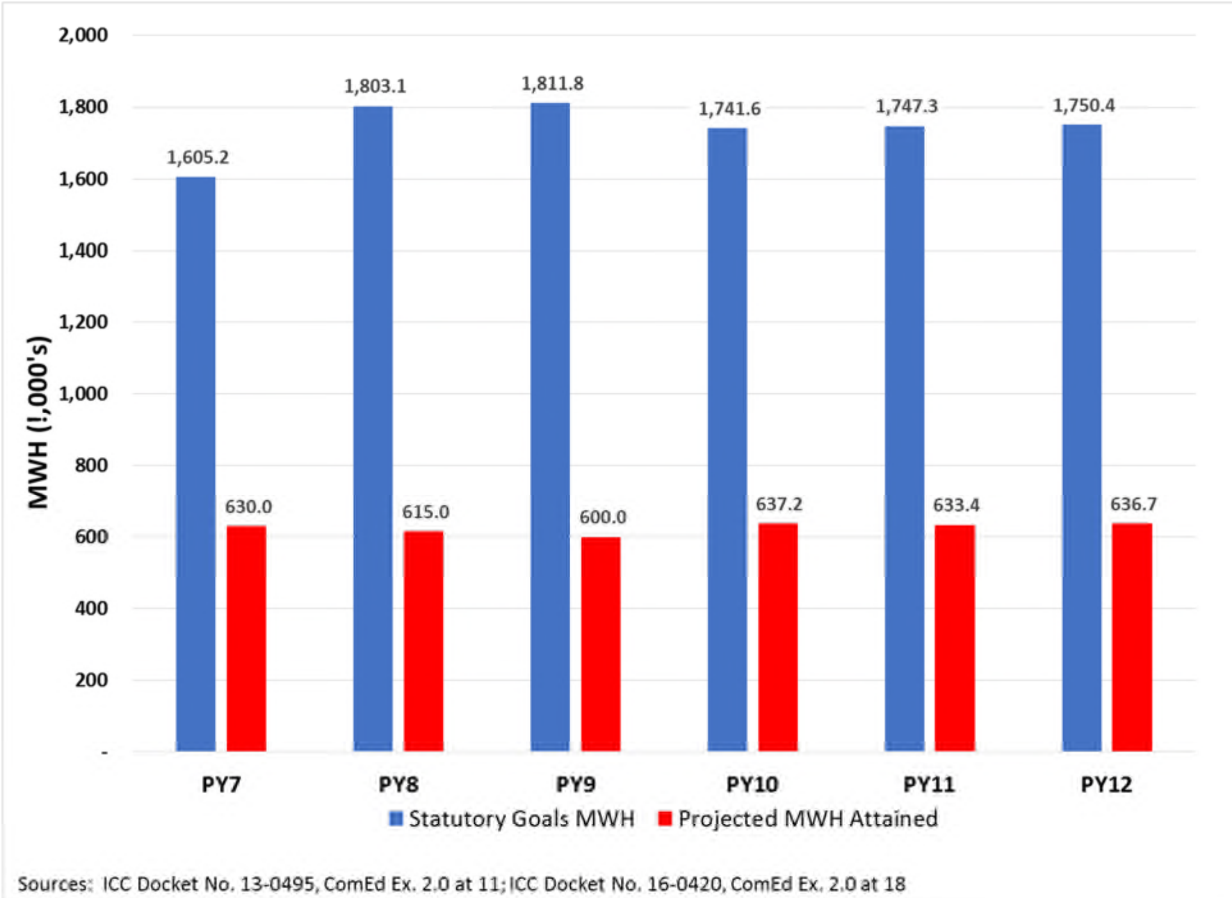
**Figure 1, ComEd Savings Goals: Statutory vs. Proposed PY7-PY12**




(*See also* REACT Ex. 1.04 attached to this testimony.)

**Q. What is ComEd's projected shortfall for Plan Years 10 through 12?**

A. ComEd's projected <u>shortfall</u> for Plan Years 10 through 12 is approximately 63%. That is, ComEd projects it will achieve just over one-third of the goal set forth in the statute.

**Q. Has ComEd provided a justification for deviating so drastically from the statutory energy efficiency goals for Plan Years 10 through 12?**

A. No. ComEd has not presented any evidence in this proceeding demonstrating that it has done everything possible, within the statutory rate cap, to advance energy efficiency.

Absent such a showing, the Commission should be overtly skeptical of ComEd's claim that the statutory goals should be modified.

**Q. Does ComEd have motivation to meet the statutory energy efficiency goals?**

A. Even though the statute includes the possibility that ComEd could be penalized for failure to meet the statutory energy efficiency goals, it is far from clear that ComEd has appropriate economic incentives to properly administer cost-effective energy efficiency programs. ComEd's real economic incentive is to convince the Commission to modify the statutory energy efficiency goals and reset those goals as low as possible.

**Q. Why is that?**

A. ComEd makes money by delivering electricity. The more electricity ComEd delivers, the more money it charges its customers, and the higher its revenue. Higher levels of energy efficiency deployment will reduce the amount of electricity that ComEd delivers. Therefore, ComEd's economic interests do not naturally align with the goal of advancing energy efficiency.

That situation, standing alone, is a matter of concern in terms of ComEd's drive to implement the most effective energy efficiency program. However, there is an additional component that should make the Commission question ComEd's incentives and motivations. ComEd's parent company, Exelon, is in the business of electric generation and it makes money by selling that electricity to load serving entities, including those that provide service in ComEd's service territory. Thus, all else being equal, ComEd's parent company also does better when more, rather than less, electricity is sold, particularly at peak times. In short, energy efficiency poses a threat to Exelon.

This is not meant to be an indictment of Exelon or ComEd, but rather a recognition that their management have obligations to shareholders that do not align with aggressively pursuing energy efficiency for ComEd’s largest customers. These factors raise a significant question as to whether ComEd is the proper party to be responsible for developing and implementing energy efficiency programs in ComEd's service territory. Indeed, the Public Utilities Act provides that if a utility repeatedly fails to meet savings levels, the Illinois Power Agency may be brought in to manage the program. (*See* 220 ILCS 5/8-103(i).) Given ComEd’s own projections, and its continued failure to engage with its largest customers, the Commission might consider transferring the entire program to the Illinois Power Agency, but at a minimum the Commission should take the step now to empower ComEd’s largest energy users to implement energy efficiency projects at their facilities.

## V.

## LARGE CUSTOMERS ARE FRUSTRATED WITH COMED'S INABILITY TO EFFECTIVELY INCORPORATE THEM INTO ITS ENERGY EFFICIENCY PROGRAMS

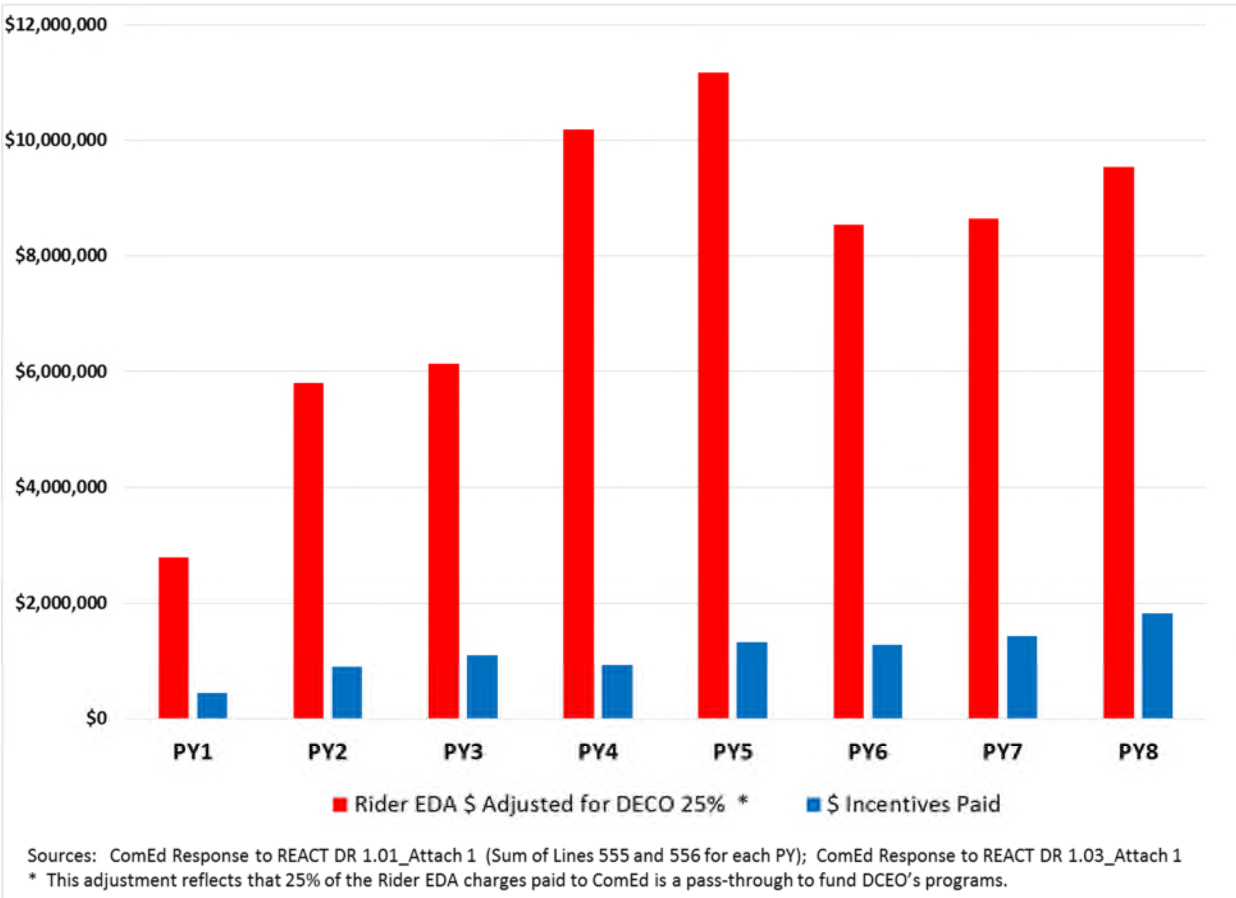
**Q. What has been your experience working with large governmental, commercial, and industrial customers in Illinois who have been paying to support ComEd's Energy Efficiency Program?**

A. The largest customers have paid ComEd a substantial amount of money to support energy efficiency since 2008 and have received little or no benefits. They do not understand why there is such a difficult and bureaucratic process in place that blocks them from recapturing the funds that they have paid into ComEd's energy efficiency programs. The rules that ComEd has developed for many of its programs, such as a three year planning period and capital cost contribution requirements, simply are not in alignment with large customer financial and project implementation planning processes. In sum, ComEd's largest customers are frustrated and many simply do not trust ComEd.

**Q. Has ComEd been successful in incentivizing its largest customers to participate meaningfully in ComEd energy efficiency programs?**

A. No. The largest customers have collectively paid tens of millions of dollars to ComEd, but have received very little back. The following table shows that since the inception of ComEd's energy efficiency program, ComEd has failed to provide meaningful incentives back to its largest customers.

**Figure 2. Comparison of Rider EDA Funds Collected From and Incentives Paid To ComEd ELLC and Over 10 MW High Voltage Customers**



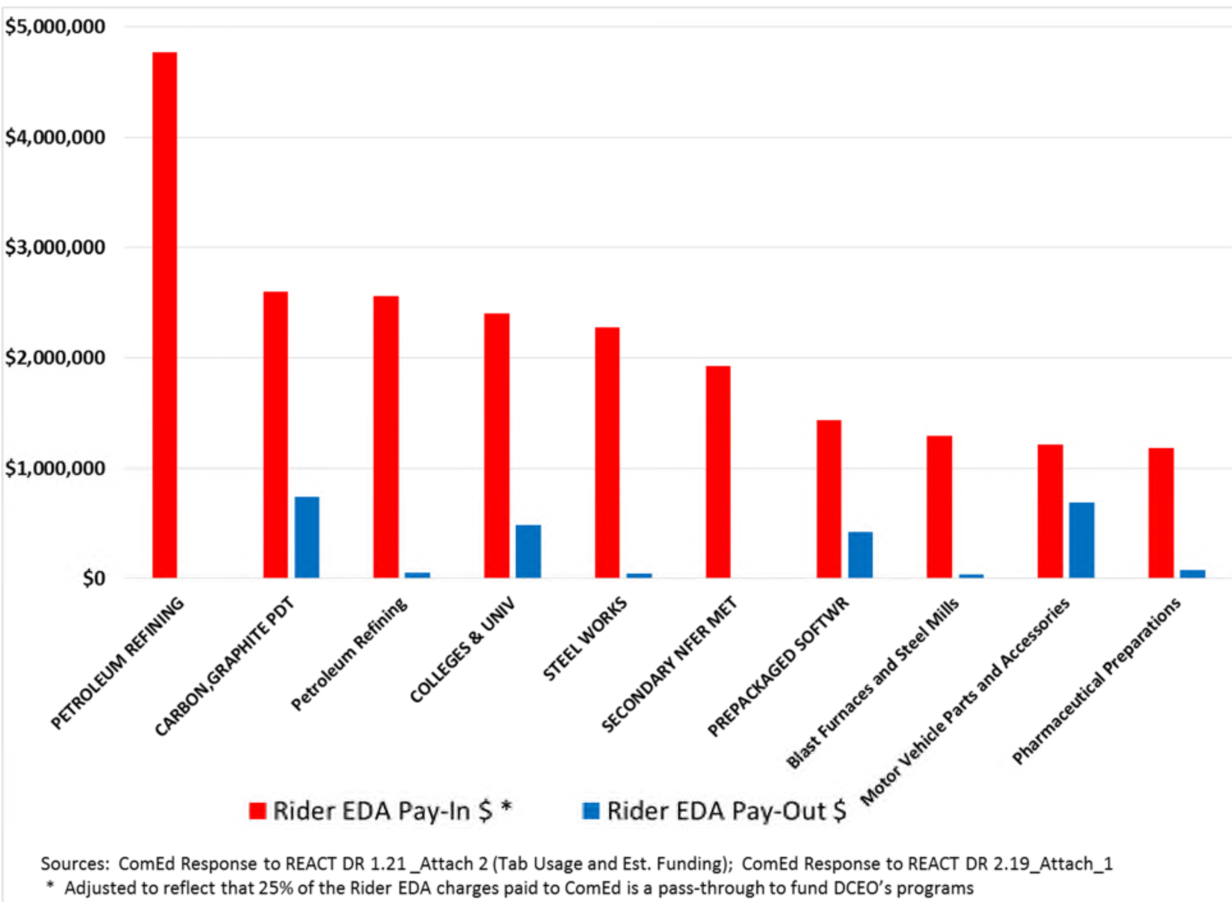

(*See also* REACT Ex. 1.05 attached to this testimony.)

Thus, since the inception of ComEd's Energy Efficiency Plans, its largest customers have received back in incentives just 14.7% of the funds that they have paid to ComEd for its programs.

**Q. Have you evaluated ComEd's performance in incentivizing the very largest customers to participate in its Energy Efficiency Program?**

A. Yes. I analyzed data relating to the 10 largest customers in terms of payments to ComEd under Rider EDA. ComEd's track record with its top ten customers underscores ComEd's failure to provide meaningful incentives to its largest customers. The following chart illustrates the funds they have paid to support ComEd's Energy Efficiency Program, and the amounts ComEd has returned to those customers:

**Figure 3. Comparison of Rider EDA Funds Collected From and Incentives Paid To ComEd's 10 Largest Customers (PY1-PY9)**




(*See also* REACT Ex. 1.06 attached to this testimony.)

**Q. What does the data reveal about ComEd's failure to engage these customers in its Energy Efficiency Program?**

A. The data shows:

- As a group, the top 10 customers have received back just 11.8% of the EDA charges paid to ComEd for its programs.
- Five of the top 10 largest customers have received *less than 5%* of Rider EDA payments back in energy efficiency incentives.
- Four of the top 6 largest customers have received *just 2% or less than* of Rider EDA payments back in energy efficiency incentives.
- Only three of the top 10 customers received more than 25% of the Rider EDA money that was paid to ComEd, and two of those customers received less than half of the funds paid in.

(*See id.*)

**Q. What conclusions can be drawn for the foregoing data?**

A. In sum, the largest customers have paid in ***more than sixty-one million dollars*** to support ComEd's Energy Efficiency Program, but have received little direct benefit; they have received back less than 15 cents per dollar paid. For the largest of large customers, the problem is even more pronounced; they receive less than 12 cents per dollar paid. That level of non-participation in ComEd's programs is problematic in and of itself, but it is also relevant to ComEd's failure to meet the statutory savings levels.

**Q. Is there any data suggesting a higher participation level by large customers recently?**

A. Certain data provided by ComEd suggests that during program years 6-8, there has been a higher participation rate in one ComEd program, its Prescriptive/Custom program. However, the impact of this increase in raw participation numbers is undercut when you look to see what impact that had on ComEd's level of incentives. (*See* REACT Ex. 1.07 attached to this testimony.) While the average total annual incentives paid out in the Prescriptive/Custom program rose just slightly during those years, as a result, the average individual incentive award actually *dropped by more than 55%*. This significant drop in the average size of individual incentives does not suggest the deployment of larger energy efficiency projects, but rather exactly the opposite -- more small projects (assuming projects actually resulted from these incentive payments), resulting from stagnant funding spread over more customers. All of this, combined with the fact that the ratio of the amount of incentives to the amount contributed has continued to be shockingly low, reinforces the point that ComEd's programs fail to result in *large scale* energy efficiency projects -- the type that REACT witness Mr. Elliott identifies as the projects that are actually highly cost efficient resulting in more energy efficiency bang for each energy efficiency buck.

**Q. Why have the largest users not been more active in the ComEd Energy Efficiency Program?**

A. There are several reasons. First, the funding rules under ComEd's programs are complex and the risks are uncertain. The largest ComEd customers do not trust that even "approved" funds for an energy efficient project will actually be paid or be paid in a timely manner. Verification requirements after a project is approved and installed put the customer at risk. In his Direct Testimony, REACT witness Mr. Elliott explains the importance of funding certainty to successful large customer energy efficiency programs.

Second, and related to the issue of funding uncertainty, large energy users have been frustrated by the needless bureaucracy and lack of clarity associated with ComEd's electric Energy Efficiency Programs. Simply trying to figure out the rules under which the Energy Efficiency Program funds might be accessed is complicated. ComEd's own studies note this deficiency. (*See, e.g.*, October 5, 2016 Navigant Memorandum to Michael Brandt, at 2 (REACT 1.21 SUPP_Attach 1), attached to this testimony as REACT Ex. 1.08) (hereafter, the "Navigant Evaluation Memorandum"). Add to that the "revolving door effect" of multiple site visits by ComEd, its consultants, and its vendors, which appear highly duplicative from the customer perspective. Customers frequently comment that every time a ComEd representative or consultant visits the customer site, the customer has to start from zero to educate them about the customer's facility, production process, and energy usage. Each subsequent visit seems to involve new people so the education process needs repeating. Any suggestion that a utility knows best which energy efficiency projects should be funded for these large, sophisticated energy users ignores reality.

Under the existing programs, even when customers incur the significant time and expense involved with assessing a project under ComEd's requirements and then applying for ComEd approval, there is no level of confidence that the project will be approved on a schedule and in a way that is workable for the customer. A single bad experience in attempting to secure funds from ComEd can make an organization to decide that it is not worth even making the initial expenditure to attempt to actively participate in the program. As a result, projects that could have realized substantial energy efficiency savings can be shelved due to just the perception of shifting program parameters or an onerous application process.

Third, many of the "low hanging fruit" projects that are the easy cost-effective efficiency measures such as lighting and variable speed motors have been analyzed and completed by the largest customers. Many of those customers have dedicated energy managers or utility supervisors who are continuously seeking ways to lower their energy costs through energy conservation, load management, and competitive supply purchases. This energy management practice has been an ongoing process for many years.

Finally, the "non-low hanging fruit" projects are oftentimes much more complicated. These projects require complex planning, longer lead times, and larger capital contributions. A customer's capital funds are not endless and a variety of other projects compete for these funds. Therefore, just because a customer has a cost-effective energy efficiency project, nothing guarantees that the project will be approved within the company if other projects are simpler to implement, provide greater cost savings, or have less project cost risk.

**Q. Are there other flaws in ComEd's Energy Efficiency Programs that frustrate large energy users?**

A. Yes. ComEd's Energy Efficiency programs run on a three-year planning horizon, such as the June 2017 to May 2020 planning period being reviewed in this proceeding. Large energy users should not be forced to develop and implement projects under ComEd's three-year planning period. Customers operate their facilities and make improvements based upon their schedules. ComEd's three-year planning period is not always workable for complicated, capital intensive projects.

For most REACT members and other large customers, their manufacturing or production process is unique and complex. Oftentimes, an "off-the-shelf" energy efficiency measure is not applicable, particularly within ComEd's compressed timeframe. Equipment often has to be specially engineered, manufactured, installed, and tested before it is operational. This uniqueness and complexity can lengthen the time to complete an energy efficiency project, making it extremely difficult to fit within the ComEd three-year planning period.

As an example, some REACT members only shut down facilities or processes for maintenance once every three to five years, or oftentimes even longer. They run their plants as long as possible to avoid shutdowns. Large energy efficiency projects can often only be implemented during these "down times." If the project development time to obtain company approval is an unknown or lengthy process, a three-year project completion timeline becomes unworkable.

**Q. What can be done to stimulate participation from these customers?**

A. The answer is **not** more of the same complex, bureaucratic ComEd command-and-control programs, which is what ComEd has proposed. Rather, it is time to implement something for ComEd's largest customers that has worked very well to get the largest customers of the Illinois natural gas utilities to implement energy efficiency projects: a Self-Direct Program.

## VI.

## LESSONS TO BE LEARNED FROM COMED'S FAILED LARGE C&I PILOT PROGRAM

**Q. Please describe the Large C&I Pilot Program that ComEd proposed in ICC Docket No. 13-0495.**

A. In Docket No. 13-0495, ComEd proposed a Large C&I Pilot program. While the pilot program was still under development when proposed, ComEd's stated intent was to allow each Large C&I customer to direct funds that the customer paid for the customer's own projects. However, ComEd still would hold the funds, just as it does in all of its other programs, and ComEd included the following additional requirements in its initial 2013 plan:

- Projects must be cost-effective on TRC basis.
- Participants have 6 months to develop and submit projects. Clock starts when ICC approves pilot as part Plan 3 on or before Feb 1, 2014.
- Participants must co-fund projects at minimum of 33% of total cost.
- Project funding comes from a "pre-specified percentage" of the tracked amount of EDA charges paid by the participant to date. No advance funding is allowed.
- No more than 20% of funds can be spent on non-project costs (*e.g.*, engineering studies, design work).
- Progress payments allowed with sufficient support documentation.
- Approved projects must be completed by May 31, 2017.
- Project savings are subject to EM&V process.
- Unused funds at end of three-year pilot are returned to the general pool.

(*See* ICC Docket No. 13-0495, ComEd Ex. 1.0 at 82-83.)

**Q. How did REACT respond to ComEd's proposed Large C&I Pilot?**

A. REACT made clear that ComEd's proposal was not an Electric Self-Direct Program, which was what REACT favored then, just as it does now. It was entirely unclear whether the Large C&I Pilot would address the customer frustration issues I discussed earlier.

**Q. Did REACT propose a similar pilot program?**

A. No. REACT advocated for a true Self-Direct program similar to the natural gas program managed by DCEO. The natural gas self-direct program in Illinois is a true Self-Direct program where the participants actually set aside the energy efficiency payments in a separate reserve account held and managed by the customer. Although REACT ultimately agreed to a modified version of the Large C&I Pilot, it continued to request that the Commission lay the groundwork for a true self-direct program.

**Q. How did REACT's proposed Electric Self-Direct Energy Efficiency Pilot Program differ from ComEd's proposed Large C&I Pilot?**

A. REACT proposed a "true" self-direct program that would have allowed Extra Large Load and High Voltage Over 10 MW size customers to set aside funds in their own reserve account that would be earmarked for energy efficiency projects. The customer would develop and implement programs and report to ComEd on an annual basis the status of the energy efficiency account, investments implemented and energy savings. The customer would also report on the details for future energy efficiency projects to be implemented.

**Q. What was the final outcome of ComEd's Large C&I Pilot proposal in that proceeding?**

A. In its Final Order, the Commission conditionally approved a modified version of ComEd's Large C&I Pilot Program. The Commission further directed the Stakeholder Advisory Group ("SAG") to engage in its collaborative process to formulate the implementation details of the program. (*See* ICC Docket No. 13-0495, Final Order at page 74.) On May 24, 2014, ComEd submitted a compliance filing with the ICC with the Large C&I Pilot program.

**Q. Did the Final Large C&I Pilot address REACT's concerns that motivated the proposal for an effective Electric Self-Direct Energy Efficiency Pilot Program?**

A. No. The Large C&I Pilot Program was an interim, compromise step, at best, from REACT's perspective. REACT favored then, and favors now, a true "Self-Direct" program where the large customer would itself directly place funds into its own energy efficiency reserve account. Under this reserve account method, the customer would have greater assurance that funds would available for use for its energy efficiency projects. As long as ComEd holds the money, customers will be reluctant to implement energy efficiency programs for fear that their funds will not be released by ComEd.

**Q. Did ComEd provide any background regarding the Large C&I Pilot in its direct testimony?**

A. No. ComEd's initial filings in this proceeding appear to have no substantive discussion or information about ComEd's implementation efforts associated with the Large C&I Pilot Program. There is also an absence of clear reporting about the results of the Large C&I Pilot Program. It appears – based upon its absence from the program description information that ComEd provided -- that ComEd does not intend to continue the Large C&I Pilot Program, and that ComEd has done nothing to replace it or offer other unique offerings to its largest customers.

To try to understand this better, REACT served data request about the Large C&I Pilot Program. ComEd's responses confirm that there were no energy efficiency projects implemented as a result of the Large C&I Pilot Program. (*See* ComEd Response to REACT 1.22 & 2.06, attached hereto as REACT Ex. 1.09.) Beyond that, ComEd provided its summary of its outreach approach and the results of its efforts through June 2014. (*See* ComEd Supplemental Response to REACT Data Request 1.21, REACT 1.21_Attach 1, "Summary of Outreach Efforts & Results for the Large Commercial and Industrial Pilot Program" (hereafter, "2014 Summary of Outreach"), attached to this testimony as REACT Ex. 1.10.)

**Q. What did ComEd do to promote the Large C&I Pilot?**

A. From a high level perspective, it appears that ComEd made some attempt to contact eligible customers to familiarize them with the pilot program and also held four webinars. ComEd presented the Pilot as an alternative to using Smart Ideas for Your Business ("SIFYB") program funds. However, the case that ComEd put forth for the Large C&I Pilot Program was not particularly compelling; instead, ComEd seemed to suggest that the SIFYB program would be the better choice for its largest customers.

**Q. What was the result of the Large C&I Pilot program implemented by ComEd?**

A. Of the approximately 62 large customers who qualified for the pilot, only one customer applied for and was accepted into the pilot program. However, that customer's project was not implemented. Consequently, ComEd's Large C&I Pilot Program resulted in zero energy efficiency projects being implemented. (*See* ComEd Response to REACT 1.22, REACT Ex. 1.09.)

**Q. Did ComEd evaluate why the Large C&I Pilot failed?**

A. While it appears that ComEd has done some evaluation of the failed Large C&I Pilot, it is far from clear that ComEd made any effort to address the results of that assessment. ComEd has provided the 2014 Summary of Outreach document, which summarizes the outreach approach and the results of the outreach efforts that occurred from June through August of 2014." (*See* REACT Ex. 1.10 at 2.) That document finds:

> "The most likely barrier to more enrollments in the Large C&I Pilot program is complexity of the two options combined with a lack of customer time available and the low priority of energy efficiency in the day-to-day business of the people who received pilot materials. Although technically the Pilot offering would be beneficial to many of the eligible customers, the time and effort required to understand the Pilot program design and compare it to the regular *Smart Ideas* program was more than these customers have available."

(*Id.* at 9.)

While this language is being used to describe barriers to participation in the Large C&I Pilot Program, it could just as easily be used to describe the state of ComEd's energy efficiency offerings generally to the largest customers -- it is clear that ComEd Energy Efficiency Programs are overly complicated and confusing for the largest customers.

It is also clear that ComEd has not taken action to address the barriers that ComEd itself identified with the Large C&I Pilot Program in 2014. Just recently, ComEd engaged an outside firm to poll the eligible customers to see why they did not participate. The resulting document is dated October 5, 2016, over a month after ComEd filed its Energy Efficiency Plan in this proceeding. (*See* Navigant Evaluation Memorandum, attached to this testimony as REACT Ex. 1.08.) Incredibly, the Navigant Evaluation Memorandum fails to even acknowledge that there have been *zero projects* implemented through the Large C&I Pilot Program.

Instead, the Navigant Evaluation Memorandum makes a half-hearted attempt to dress up the non-participation of the largest customers in the Large C&I Pilot program with a wide range of different explanations. The Navigant Evaluation Memorandum lists the following reasons given by large customers for not entering into the program:

- Confusion on how to get involved.
- Lack of knowledge on who to reach out to in order to get started.
- Too complicated.
- Equipment is expensive to upgrade due to the nature of the trade ally.
- Previously rejected from the programs.
- Difficult to get internal project approvals.
- Having resources available to work within the ComEd timeframe.
- Large C&I funding caps as disincentive to foregoing SIFYB programs.
- Lack of engineering resources.
- More communication on what is needed to submit.
- Vendors should assist with paperwork.

(*Id.* at 3.) What comes through from the Navigant Evaluation Memorandum is that the Large C&I Pilot was just another confusing, bureaucratic, ComEd-controlled program that was neither a practical solution nor a more appealing alternative to ComEd's already problematic offerings.

**Q. What is your reaction?**

A. At one level, the results are no surprise. This echoes what REACT said about ComEd's Energy Efficiency Programs going back to the 2013 ComEd energy efficiency case (ICC Docket No. 13-0495). At another level, it is surprising and disappointing that ComEd did not take action earlier, since it was clear from the 2014 Memorandum that the large C&I Pilot Program was not being well received by the largest customers. Yet, ComEd made no proposals to change the program or its implementation. In short, the ComEd Large C&I Pilot Program was viewed by customers as just another complex and bureaucratic utility command-and-control program, where ComEd holds the money and ComEd makes the decisions about when and where that money will be spent.

**Q. What is your recommendation regarding how the Commission view a properly designed self-direct program for large customers?**

A. An Electric Self-Direct Program presents a significant opportunity to eliminate needless bureaucracy and empower customers to advance energy efficiency in Illinois. This is a great opportunity to move some of ComEd largest customers from their current "sideline" position, to becoming active participants, implementing cost-effective, substantial energy efficiency projects in northern Illinois.

## VII.

## CONCLUSIONS AND RECOMMENDATIONS

**Q. Please summarize your overall conclusions and recommendation.**

A. Since the inception of ComEd's Electric Energy Efficiency Plan, ComEd has failed to design and implement programs that effectively engage its largest customers in a meaningful way. Both the participation rate and the incentive payment amounts to the largest customers are very low. ComEd has shown an inability to effectively engage with its largest customers to achieve cost-effective energy efficiency implementation. ComEd either cannot or will not modify its programs to facilitate implementation of energy efficiency programs by its largest customers. A Self-Direct approach is a better model, as shown by the success of the natural gas self-direct program in Illinois, which has had high participation rates by the largest energy users. Therefore, the Commission should (1) evaluate whether it is appropriate for the Illinois Power Agency to begin implementing the energy efficiency plan; and (2) require ComEd to offer an Electric Self-Direct Program for its largest customers containing the program elements outlined in REACT Ex. 1.02, attached to this testimony.

Q. Does this conclude your direct testimony?

A. Yes.